BEFORE THE ARIZONA CORPORATION

MIKE GLEASON
Chairman
WILLIAM MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE MERGER OF QWEST CORPORATION AND QWEST LD CORP., CANCELLATION OF QWEST LD CORP.'S CERTIFICATE OF CONVENIENCE AND NECESSITY, AND APPLICATION FOR APPROVAL OF A LIMITED WAIVER FROM A.A.C. R14-2-1901 ET SEQ.

DOCKET NO. T-01051B-07-0527
T-04190A-07-0527

SECOND AMENDED JOINT NOTICE OF MERGER; APPLICATION FOR CANCELLATION OF QWEST LD CORP'S CC&N AND APPROVAL OF A LIMITED WAIVER FROM A.A.C. R14-2-1901 ET. SEQ.

AMENDED JOINT NOTICE OF MERGER

Pursuant to a procedural conference held on May 21, 2008 in the above-captioned matter, Qwest Corporation ("QC") and Qwest LD Corp. ("QLDC") hereby submit this Second Amended Joint Notice of Merger, Application for Cancellation of Certificate of Convenience and Necessity and for Waiver from the requirements of A.A.C. R14-2-1901 *et seq*. ("Amended Application"). With this Amended Application, QC and QLDC seek an Order from the Arizona Corporation Commission ("Commission") approving the merger pursuant to A.R.S. § 40-285(D), canceling QLDC's certificate of convenience and necessity ("CC&N") approved in Decision No. 66613 (December 9, 2003), and granting a waiver from certain authorization and notice provisions of A.A.C. R14-2-1901 *et seq*.

On May 15, 2008, Commission Staff submitted a Staff Report recommending approval of the underlying transactions, subject to certain conditions, and that an expedited hearing be held. This Amended Application is being filed to accurately reflect the relief sought by QC and QLDC in its original application, and therefore should not be considered an impediment to conducting an expedited hearing in this matter.

I. THE PARTIES

QC provides local exchange telephone services in many parts of Arizona, and is the incumbent local exchange carrier under the federal Communications Act of 1934, as amended by the Telecommunications Act of 1996. QC is an indirect subsidiary of Qwest Communications International, Inc. ("QCII"), a publicly traded corporation, which is a public utility holding company under the meaning of the Commission's affiliated interest rules.

QLDC was created as a QC affiliate in order to satisfy the legal requirements of sections 271 and 272 of the federal Telecommunications Act of 1996. QLDC serves its customers by reselling services it purchases from Qwest Communications Corporation ("QCC"), another Qwest affiliate and certificated interexchange carrier. QLDC's customer base is "mass market" -- consumer residential and small business. QLDC does not sell any local services. QLDC provides services only in the service territory where QC provides local exchange services as an incumbent in fourteen western states, including Arizona. As of August 31, 2007, QLDC provided interexchange services to approximately 770,000 customers in Arizona. The Commission approved the long distance reseller CC&N for QLDC in Decision No. 66613 (December 9, 2003).

Both QC and QLDC are affiliates within the overall Qwest corporate structure. At the top of Qwest's corporate structure is the parent holding company, Qwest Communications International Inc., or "QCII." Directly below QCII is Qwest Services Corporation, or "QSC". QSC is also the sole shareholder of QC, QLDC, and other Qwest entities.

II. THE TRANSACTION

The consolidation of QLDC into QC will be accomplished by a merger with QC as the surviving entity, and the outstanding QLDC stock being cancelled.

III. STANDARD OF REVIEW

The statutory requirement for approval by the Commission of the transaction is A.R.S. § 40-285(D). Because QLDC and QC are both public service corporations existing under the laws of Arizona, A.R.S. § 40-285(D) requires that the Commission authorize the merger. The law states that "A public service corporation shall not purchase, acquire, take or hold any part of the capital stock of any other public service corporation organized or existing under the laws of this state without a permit from the commission."

As a Class "A" investor-owned utility subject to Commission jurisdiction, the merger constitutes a reorganization under the Commission's affiliated interest rule A.A.C. R14-2-803. However, QC and its affiliates have been granted a limited waiver from the requirements of A.A.C. R14-2-803, and must file a notice of intent to reorganize in instances where the reorganization is likely to: (1) result in increased capital costs to QC; (2) result in additional costs allocated to the Arizona jurisdiction; or (3) result in a reduction of QC's net operating income. Decision No. 64654 (March 25, 2002). None of these factors is likely to result from the merger.

Under A.R.S. § 40-285(D), the Commission must determine whether the merger will serve the public interest.

IV. <u>THE MERGER IS IN THE PUBLIC INTEREST</u>

QC's acquisition of QLDC will serve the public interest, and the transaction should be approved accordingly. The merger will not impair QC's financial status, otherwise prevent it from attracting capital on fair and reasonable terms, nor impair QC's ability to provide safe, reasonable and adequate service to existing customers. The following information is provided in support of the merger.

1. <u>Benefit to Customers</u>.

Combining QLDC and QC should be invisible to customers and not result in any immediate material impact. QLDC customers will see no changes in their offerings or rates, and they will continue to receive services under the "Qwest" brand. Currently, QLDC customers see the charges for QLDC services as charges for "Qwest Long Distance" on their bills. The merger will not change these bill descriptions. Moreover, all services and rates that are available to customers of QLDC and QC shall continue to be available post-merger.[1] The QLDC tariffs, in their entirety, will be added as QC tariff filings once the merger is finalized.

From a practical perspective, all customers will see little if any immediate difference in service other than the simplification of dealing with one corporate entity. QC currently performs billing functions for all QLDC customers such that QLDC charges are presently reflected in QC bills. This will not change. In the future, the merger will allow QC to package local and long distance service in a similar fashion to that which is currently being done by Cox and other QC competitors. This consolidation also will simplify the legal relationships because customers will be subscribing from a single legal entity where before there were two.

2. *Benefits to the Companies.*

The merger of QC and QLDC is driven by the sunset of Qwest's obligations under Section 272 of the Telecommunications Act. Section 272 required that a separate corporate affiliate be maintained to provide interLATA services after Qwest obtained the authority under Section 271 to provide interLATA services. With the recent sunset of several of QC's obligations under Section 272, the applicants desire to move the long distance affiliate QLDC into QC, thereby simplifying and unifying local and long distance voice services for mass market customers into a single provider.

The elimination of an affiliate will reduce administrative burden, record-keeping, and the number of affiliate transactions.

3. *The Merger Will Have No Impact on the Method of Financing or the Capital Structure of the Holding Company QCII.*

The merger will have no impact on the method of financing or the capital structure of the holding company QCII.

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[1] Any subsequent post merger tariff changes affecting these services would be subject to and filed in accordance with Commission rules.

4. The Merger Will Have A Positive Equity Impact on QC's Capital Structure.

QC estimates that the equity component of QC's capital structure will increase by approximately $50M on total corporate basis as a result of the QLDC-QC merger. The debt component of QC's capital structure is unchanged by this transaction.

5. The Merger Will Not Alter the Method of Allocating Income Taxes.

The method of allocating federal and state income taxes to the subsidiaries of QCII will remain the same.

6. The Merger Will Not Change QC's Cost of Service and Cost of Capital.

QC does not anticipate that there will be a change to its cost of capital or an increase in its cost of service attributable to the merger. The post-merger company anticipates that it will be able to continue to attract capital on terms no less favorable than prior to the merger, and that adequate capital will be available for construction of necessary new utility plant and for improvements in existing utility plant at no greater cost than today. QC and its affiliates will continue to make investments in the ordinary course of their businesses. These investments will not increase the risks of investment in QC or its cost of capital.

7. The Merger Is Not Part of Any Diversification Plan.

QC and its affiliates have no current plans to diversify beyond the fields in which they are currently engaged.

8. The Merger Does Not Depend Upon Approval By Any Other Government Agencies.

Neither Applicant contemplates the need for any approvals from the Securities and Exchange Commission, or any other federal or state agencies in connection with this transaction. However, should any such filings for approval be made, copies of the filings will be provided to the Commission.

9. *The Merger Will Not Result in a Reduction In the Current Number of Employees In Arizona.*

QLDC does not have any employees in Arizona. The merger will not affect the number of Qwest employees in Arizona.

V. CANCELLATION OF QLDC'S CC&N IS IN THE PUBLIC INTEREST

Once QLDC ceases to exist as a corporate entity, there will no longer be a need for the CC&N granted to QLDC in Decision No. 66613 (December 9, 2003). Former QLDC customers will be migrated to QC, which is now authorized to provide long-distance service directly to them, in a seamless transition that should be invisible to all customers, subject to any notice requirements imposed by the Commission. In order to properly effectuate the cancellation of QLDC's CC&N, Applicants propose that any decision cancelling QLDC's CC&N become effective upon written notice by QC to the Commission that the merger is complete.

VI. A LIMITED WAIVER FROM THE COMMISSION'S ANTI-SLAMMING RULES IS IN THE PUBLIC INTEREST

The purpose and scope of the Commission's anti-slamming rules is to protect consumers from an unauthorized change in their intraLATA or interLATA long-distance telecommunications company. A.A.C. R14-2-1902. In order to protect consumers from the effects of "slamming," telecommunication carriers are required to go through a list of verification and notification procedures designed to ensure that long-distance customers are aware, and consent to, the switch of long-distance providers. A.A.C. R14-2-1905, 1906 and 1908. Qwest asserts that a limited waiver from the Commission's anti-slamming rules is warranted specifically in connection with the transaction.

Combining QLDC and QC should be invisible to customers and not result in any material impact in service. QLDC customers will see no changes in their offerings or rates, and they will continue to receive services under the "Qwest" brand. Currently, QLDC customers see the charges for QLDC services as charges for "Qwest Long Distance" on their bills. The merger will not change these bill descriptions. Moreover, all services and rates that are available to customers of QLDC and QC shall continue to be available post-merger. The QLDC tariffs, in their entirety, would be added as QC tariff filings.

From a practical perspective, customers will see little if any difference, other than the simplification of dealing with one corporate entity. For all of QLDC customers, QC currently performs billing functions such that QLDC charges are presently reflected in QC bills. This will not change. This consolidation will also simplify consumer relationships. QLDC customers will no longer have to deal with separate corporate entities for local and long distance services. If a consumer buys "Qwest" local or long distance service after the merger, only one entity is involved.

Requiring QC to obtain individual authorization and verification for each customer migrating from QLDC, as is currently required under the Commission's anti-slamming rules, would be unduly burdensome, uneconomic and may cause confusion for customers. As noted by the Federal Communications Commission in its First Report and Order in CC Docket No. 00-257 and Fourth Report and Order in CC Docket No. 94-129[2] (May 15, 2001)("Order"), "a change in corporate structure that is invisible to the affected subscribers does not constitute a sale or transfer for purposes of section 258 that implicates this streamlined process. FN – Indeed, in such cases, requiring notice of a change that is imperceptible to the affected subscriber might cause confusion where there would otherwise be none." Order at ¶ 13, FN 24.

QC asserts that the effects of the merger will be imperceptible to QLDC's customers since the transfer involves what can be termed a 'pro-forma' transfer of control between QLDC and QC. The need to provide notice to QLDC's customers is outweighed in this very limited instance by the potential confusion caused by such a notice. Moreover, the 'pro-forma' nature of the transfer of customers does not implicate the potential for fraud and misrepresentation the Commission's anti-slamming rules are

[2] 2000 Biennial Review – Review of Policies and Rules Concerning Unauthorized Changes of Consumer Long Distance Carriers; Implementation of the Subscriber Carrier Selection Changes Provisions of the Telecommunications Act of 1996.

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designed to prevent. As such, following the authorization and verification procedures in this instance would be unduly burdensome and time consuming, and represents an economic burden that, in QC's determination, would not serve the public interest.

RELIEF REQUESTED

Applicants respectfully request the following relief:

A. That the Commission proceed to consider and act upon the Amended Application as timely as possible without a hearing;

B. That upon completion of review and recommendations made by Commission Staff, or if a hearing is required then upon completion of such hearing, that the Commission enter an Order authorizing: (1) the merger of QLDC and QC in accordance with A.R.S. § 40-285(D); (2) the cancellation of QLDC's CC&N established in Decision No. 66613 upon written notification that the merger is finalized; and (3) a limited waiver from the requirements of A.A.C. R14-2-1901 *et* seq.; and

C. That the Commission grant such other and further relief to the Applicants as may be appropriate under the circumstances herein.

RESPECTFULLY SUBMITTED this 2nd day of June, 2008.

QWEST CORPORATION
and QWEST LD CORP.

By ______ (Patrick Black on behalf of)

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